2001 Country Reports on Economic Policy and Trade Practices
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NETHERLANDS

Key Economic Indicators 1/
(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 2/
Income, Production and Employment:			
Nominal GDP 3/	399.8	369.0	379.5
Real GDP Growth (pct) 4/	3.7	3.5	1.5
GDP by Sector:			
Agriculture	9.9	9.0	9.0
Manufacturing	59.6	55.7	57.5
Services	136.5	127.7	132.4
Government	42.3	38.3	38.5
Per Capita GDP (US$)	25,304	23,208	23,719
Labor Force (000s)	7,292	7,439	7,543
Unemployment Rate (percent)	4.0	3.6	3.2
Money and Prices (annual percentage growth):			
Money Supply (M2) 5/	8.4	10.3	9.9
Consumer Price Inflation	2.2	2.6	4.5
Exchange Rate (guilders/US$ annual average)			
Official	2.07	2.39	2.50
Balance of Payments and Trade:			
Total Exports FOB 6/	198.3	206.2	209.6
Exports to United States 7/	8.5	9.7	10.2
Total Imports CIF 6/	189.3	195.5	197.8
Imports from United States 7/	19.4	22.0	23.0
Trade Balance 6/	9.0	10.7	12.8
Balance with United States 7/	-10.9	-12.3	-11.0
Current Account Surplus/GDP (pct)	4.1	5.1	5.0
External Public Debt 8/	0	0	0
Debt Service Payments/GDP (pct) 8/	13.2	7.3	4.3
Fiscal Deficit/GDP (pct)	0.4	1.5	1.0
Gold and Foreign Exchange Reserves 9/	N/A	N/A	N/A
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

1/ All figures have been converted at the average guilder/US$ exchange rate for each year.
2/ 2001 figures are official forecasts or estimates based on available monthly data in October.

3/ GDP at factor costs.
4/ Percentage changes calculated in local currency.
5/ Netherlands contribution to euro-zone monetary aggregates.
6/ Merchandise trade.
7/ Sources: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2001 figures are estimates based on data available through October 2001.
8/ All public debt is domestic and denominated in guilders. Debt service payments refers to domestic public debt.
9/ Since January 1, 1999, published by the European Central Bank on a consolidated basis.

Sources: Central Bureau of Statistics (CBS), Netherlands Central Bank (NB), Central Planning Bureau (CPB).

1. General Policy Framework

The Netherlands is a prosperous and open economy, which depends heavily on foreign trade. It is noted for stable industrial relations; a large current account surplus from trade and overseas investments; net exports of natural gas; and a unique position as a European transportation hub with excellent ports, and air, road, rail, and inland waterway transport.

Dutch trade and investment policy is among the most open in the world. The government successfully reduced its role in the economy during the 1990s, and structural and regulatory reforms have been an integral component of Dutch economic policy since the early 1980s. Telecommunication services have been fully liberalized since January 1, 1998, and further deregulation and privatization of the Dutch electricity and gas markets will take place in 2004. The government continues to dominate the energy sector, and will play an important role in public transport and aviation for some time.

Dutch economic policy is geared chiefly towards sustained and environmentally sustainable economic growth and development by way of fiscal consolidation, labor and product market reforms, economic restructuring, energy conservation, environmental protection, regional development, and other national goals. Economic policy is conducted within the framework of a national environmental action plan. General elections in May of 2002 will result in a new coalition government, which will likely continue current policies but also emphasize security, healthcare and education.

After more than four years of average four percent GDP growth, falling unemployment and modest inflation, the Dutch economy has shifted into lower gear. The Dutch economy is expected to expand by less than two percent in 2001 and 2002 as a result of declining real growth rates for exports, consumer spending, and corporate investment. Employment growth will slow down considerably, stabilizing the level of unemployment at slightly over three percent of the labor force. Consumer price inflation will peak in 2001at close to five percent, partly reflecting imported inflation and a hike in indirect taxes. Inflation is forecast to ease to 2.5 percent in 2002.

The Netherlands was one of the first EU member states to qualify for Economic and Monetary Union (EMU). Fiscal policy aims to strike a balance between further reducing public spending, and lowering taxes and social security contributions. The fiscal balance registered a surplus of 1.5 percent of GDP in 2000, and is expected to remain in surplus in 2001 (one percent of GDP) and beyond. The stock of public debt is forecast to fall from a high of 62.9 percent of GDP in 1999, to 51.7 percent in 2001. Both fiscal deficit and public debt have converged well below the deficit and debt criteria in the EMU's Growth and Stability Pact.

The deficit is largely funded by government bonds. Since January 1, 1994, financing has also been covered by Dutch Treasury Certificates (DTC). DTCs replace a standing credit facility for short-term deficit financing with the central bank that, under the Maastricht Treaty, was abolished in 1994.

2. Exchange Rate Policies

Since the European Central Bank (ECB) assumed monetary responsibility on January 1, 1999, monetary policy is no longer under the exclusive control of the Dutch authorities but is determined by the Eurosystem (the European Central Bank and the 11 national Central Banks in the euro area), and is attuned to the euro area as a whole. On December 31, 1998, the exchange rate of the euro vis-à-vis the guilder was fixed at 2.20371 guilders to the euro. There are no multiple exchange rate mechanisms.

3. Structural Policies

Tax Policies: Partly with an eye to further EU integration, the Dutch recently initiated a fundamental reform of the tax system. The new tax regime entails a shift from direct to indirect taxes, a broadening of the tax base, and a reduction of the tax rate on labor. On January 1, 2001, in a first step in the reform process, Dutch authorities lowered wage and individual income taxes, while raising excise duties, "green" taxes, and Value-Added Tax (VAT) rates. The highest marginal tax rate on wage and salary income was reduced from 60 percent to 50 percent, while the top VAT rate was increased from 17.5 to 19 percent. The effective corporate income tax rate in the Netherlands is among the lowest in the European Union. Effective January 1, 1998, the standard corporate tax rate paid by corporations (including foreign-owned corporations) was reduced from 36 percent to 35 percent on all taxable profits. Since January 1, 1997, the Dutch have been offering multinationals a more attractive tax regime for their group finance activities, effectively reducing the tax on internal banking activities from 35 percent (the standard corporate tax rate) to 7 percent.

Regulatory Policies: Limited, targeted, transparent investment incentives are used to facilitate economic restructuring and to promote economic growth throughout the country. Investment subsidies are available to foreign and domestic firms alike. Subsidies are also available to stimulate research and development and to encourage development and use of new

technologies by small and medium sized firms.

Complying with EU competition legislation, new Dutch competition legislation became effective on January 1, 1998. The new Competition Law includes a provision for the supervision of company mergers by the Netherlands Competition Authority (NMA). The law is expected to boost competition, improve transparency, and provide greater de facto access to a number of sectors for foreign companies.

4. Debt Management Policies

With a current account surplus of close to five percent of GDP and no external debt, the Netherlands is a major creditor nation. Since the early 1980s, gross public sector debt (EMU criterion) has grown sharply, to 81.2 percent of GDP. Starting in 1993, the Dutch fiscal balance has drastically improved. The debt to GDP ratio is also falling more rapidly than anticipated. Debt servicing and rollover in 2000 fell to less than eight percent of GDP, with interest payments amounting to three percent of GDP. All government debt is domestic and denominated in guilders. There are no difficulties in tapping the domestic capital market for loans, and public financing requirements are generally met before the end of each fiscal year. The Netherlands is a major foreign assistance donor nation with a bilateral and multilateral development assistance budget of 1.1 percent of GDP, equal to $4.8 billion in 2001. Official Development Aid (ODA) amounts to 0.8 percent of GDP or $3.5 billion. The Netherlands belongs to, and strongly supports, the IMF, the World Bank, EBRD, and other international financial institutions.

5. Significant Barriers to U.S. Exports

The Dutch pride themselves on their open market economy, nondiscriminatory treatment of foreign investment, and a strong tradition of free trade. Foreign investors receive full national treatment, and the Netherlands adheres to the OECD investment codes and the International Convention for the Settlement of Investment Disputes. There are no significant Dutch barriers to U.S. exports, and relatively few trade complaints are registered by U.S. firms.

The few trade barriers that do exist usually result from common EU policies. Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

The following are areas of bilateral concern for U.S. exporters:

Offsets for Defense Contracts: All foreign contractors must provide at least 100 percent offset/compensation for defense procurement over five million Dutch Guilders (about $2.5 million). The seller must arrange for the purchase of Dutch goods or permit the Netherlands to domestically produce components or subsystems of the systems it is buying. A penalty system for noncompliance with offset obligations is under consideration.

Broadcasting and Media Legislation: The Dutch fully comply with the EU Broadcast Directive. Commercial broadcasters may apply for temporary exemptions of the quota requirement on an *ad hoc* basis.

Cartels: Although the export sector of the Dutch economy is open and free, cartels have long been a component of the domestic sector of the economy. Cartel legislation, which took effect in 1996, bans cartels unless its proponents can conclusively demonstrate a public interest. Since 1998, the United States has received no complaints by U.S. firms of having been disadvantaged by cartels in the Netherlands.

Pharmaceuticals: U.S. pharmaceutical companies have complained that the criteria used by the Dutch Health Insurance Board too often result in their new-to-market products being incorrectly classified with compounds determined by the board as "therapeutically equivalent" (and therefore reimbursable at a lower rate) than as "unique, innovative compounds," reimbursed at a higher international reference price. U.S. companies have also voiced concerns that the Dutch Health Insurance Board procedures have resulted in considerable and unnecessary delays in classifying products for reimbursement.

6. Export Subsidies Policies

Under the Export Matching Facility, the government provides interest subsidies for Dutch export contracts competing with government subsidized export transactions in third countries. These subsidies bridge the interest cost gap between Dutch export contracts and foreign contracts which have benefited from interest subsidies. The government provides up to 10 million guilders (about $5.5 million) of interest subsidies per export contract, up to a maximum of 35 percent of the interest costs of the export transaction. An export transaction must have at least 60 percent Dutch content to be eligible. For defense, aircraft and construction transactions, the minimum Dutch content is one-third.

There is a local content requirement of 70 percent for exporters seeking to insure their export transactions through the Netherlands Export Insurance Company.

Adhering to the EU shipbuilding regime, the Dutch have discontinued generic support of their shipbuilding industry effective January 1, 2001.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good set of IPR legislation and regulations in place. It belongs to the World Intellectual Property Organization (WIPO), is a signatory of the Paris Convention on Industrial Property and the Berne Copyright Convention, and conforms to accepted international practice for protection of technology and trademarks. Patents for foreign inventions are granted retroactively from the date of original filing in the home country, provided the application is made through a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since the Netherlands and the United States are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights in the Netherlands may be obtained if PCT application is used. The Netherlands is a signatory of the European Patent Convention, which provides for a centralized Europe-wide patent protection system. This convention has simplified the process for obtaining patent protection in the member states. Infringement proceedings remain within the jurisdiction of the national courts, which could result in divergent interpretations potentially detrimental to U.S. investors and exporters.

The enforcement of anti-piracy laws remains a concern to U.S. producers of software, audio and videotapes, and textbooks. According to the estimates of the Business Software Alliance, as much as 40 percent of all software used in the country is illegally copied. The Dutch government has recognized the need to protect intellectual property rights and law enforcement personnel have worked with industry associations to find and seize pirated software. Dutch IP legislation explicitly includes computer software as intellectual property under the copyright statutes.

8. Worker Rights

a. *The Right of Association:* The right of Dutch workers to associate freely is well established. One quarter of the employed labor force belongs to unions, but union-negotiated collective bargaining agreements are usually extended to cover about three-quarters of the workforce. Membership of labor unions is open to all workers including military, police, and civil service employees. Unions are entirely free of government and political party control and participate in political life. They also maintain relations with recognized international bodies and form domestic federations. Dutch unions are active in promoting worker rights internationally. All union members, except most civil servants, have the legal right to strike. Civil servants have other means of protection and redress. There is no retribution against striking workers. In the European Union, the Netherlands has one of lowest percentages of days lost due to labor strikes. In 2000, some 9,400 labor days were lost due to industrial disputes compared with 75,800 days in 1999.

b. *The Right to Organize and Bargain Collectively:* This right is recognized and well established. There are no union shop requirements. Discrimination against workers because of union membership is illegal. Dutch society has developed a social partnership between the

government, employers' organizations, and trade unions. This tripartite "Social Partnership" involves all three participants in negotiating guidelines for collective bargaining agreements which, once reached in a sector, are extended by law to cover the entire sector. Such generally binding agreements (AVVs) cover most Dutch workers.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor, including that by children, is prohibited by the constitution and does not exist.

d. *Minimum Age for Employment of Children:* Child labor laws exist and are enforced. The minimum age for employment of young people is 16. Even at that age, youths may work full time only if they have completed the mandatory 10 years of schooling and only after obtaining a work permit (except for newspaper delivery). Those still in school at age 16 may not work more than eight hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas that could be dangerous to their physical or mental development.

e. *Acceptable Conditions of Work:* Dutch law and practice adequately protect the safety and health of workers. Although a forty-hour workweek is established by law, the official average workweek for adults working full time currently averages 37 hours. Work-shortening programs (ADV) effectively reduce the average workweek to 36 hours. The gross minimum wage in 2001 amounted to about $1,000 per month. The legally-mandated minimum wage is subject to a semi-annual cost of living adjustment. Working conditions are set by law, and regulations are actively monitored.

f. *Rights in Sectors with U.S. Investments:* The worker rights described above hold equally for sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category	Amount	
Petroleum		3,149
Total Manufacturing		24,228
Food & Kindred Products	2,830	
Chemicals & Allied Products	12,832	
Primary & Fabricated Metals	-52	
Industrial Machinery and Equipment	2,925	
Electric & Electronic Equipment	3,584	
Transportation Equipment	-26	
Other Manufacturing	2,135	
Wholesale Trade		10,486
Banking		(D)

Finance/Insurance/Real Estate	71,373
Services	4,602
Other Industries	(D)
TOTAL ALL INDUSTRIES	115,506

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.